



United States
Department of
Agriculture

Food and
Nutrition
Service

Mountain
Plains
Region

1244 Speer Boulevard
Denver, CO
80204-2581

JAN 06 2005

Reply to
Attn of:

SFSP-510

Subject:

Simplified Summer Food Program

To:

STATE AGENCY DIRECTORS - Colorado ED, Iowa, Kansas, Missouri DH,
(Special Nutrition Programs) Montana OPI, Nebraska, North Dakota,
South Dakota, Utah and Wyoming

This memorandum provides follow-up information to the letter dated July 1, 2004, sent to the Summer Food Service Program (SFSP) director of each State Agency that is eligible to participate in the Simplified Summer Food Program beginning January 1, 2005. The Simplified Summer Food Program, an expansion of the pilot project previously known as the 14-State Lugar Pilot, was authorized by the Child Nutrition and WIC Reauthorization Act of 2004 (Pub. L. 108-265). We are sending the information under an SFSP numbered memorandum so there is a reference point if any questions should arise.

Eligible States

Pub. L. 108-265 amended the Richard B. Russell National School Lunch Act (NSLA) at Section 18(f) to establish simplified cost accounting procedures as a permanent provision for eligible States. Section 18(f)(1) of the NSLA defines eligible States as the original States that participated in the pilot (14 in total) and additional States that are eligible based on a revised formula described at Section 18(f)(1)(B). Based on this definition, the following States, listed in alphabetical order (bolded States are new), are eligible to participate in the simplified version of the SFSP:

- | | |
|---------------------|------------------------|
| 1. Alaska | 11. Mississippi |
| 2. Arkansas | 12. Nebraska |
| 3. Colorado | 13. New Hampshire |
| 4. Idaho | 14. North Dakota |
| 5. Indiana | 15. Ohio |
| 6. Iowa | 16. Oklahoma |
| 7. Kansas | 17. Oregon |
| 8. Kentucky | 18. Puerto Rico |
| 9. Louisiana | 19. Texas |
| 10. Michigan | 20. Wyoming |

Simplified Cost Accounting Procedures

Beginning January 1, 2005, all sponsors in the eligible States are exempt from the cost comparison requirements at § 225.9(d)(7) and (d)(8) of the SFSP Regulations. Like the previous pilot, sponsors will receive the maximum "meals times rates" operating and administrative reimbursements without regard to their actual costs. Sponsors may also combine their reimbursements to pay for any allowable cost, whether operating or administrative.

The Importance of Sound Program Management

The purpose of the Simplified Summer Food Program is to encourage participation by eligible sponsors in order to reach more hungry children in the summer months and other times during the year when they do not have access to school meals. Elimination of the cost comparison reduces administrative tasks and ensures a stable per meal reimbursement rate, thus making it easier for sponsors to participate. With the implementation of these reduced Program requirements, it is critical that States and sponsors practice sound Program management to ensure that the integrity of the Program is preserved. State Agencies can ensure this through careful selection of applicants, thorough training efforts especially directed to new sponsors, diligent monitoring, and prompt follow up where problems are found.

Other SFSP Requirements

Except for the elimination of cost comparisons to determine reimbursements, sponsors in eligible States must continue to meet all other Program requirements that are contained in the Regulations at 7 CFR 225 and applicable instructions, circulars, or other guidance, unless otherwise exempted by FNS. Following is a discussion of some of these requirements.

Applications

In order to participate in the simplified version of the SFSP, sponsors in the eligible States must continue to meet all application requirements contained in §§ 225.6(c) and 225.14, except as noted below for budget submissions by experienced SFSP school sponsors. Once their applications are approved, all sponsors may participate in the Simplified Summer Food Program, including private nonprofit organizations.

To safeguard the Program's integrity, especially since the cost comparisons are no longer required for sponsors, we strongly encourage State Agencies to carefully review all applications to ensure that only qualified organizations are approved to participate. A critical aspect of this review, as described in §§ 225.6(b)(9) and 225.11(c), is to ensure that no applicant that is found to be seriously deficient in any one of the Child Nutrition Programs (CN Programs) is approved to participate. Among other actions that State

Agencies should take in this regard is to check the national disqualified list to ensure that applicants have not been disqualified from the Child and Adult Care Food Program.

(Refer to § 225.11(c) for a more detailed explanation of serious deficiency as the term applies to the SFSP and denial and termination procedures for SFSP applicants or participants determined to be seriously deficient.)

Budget Submissions

Except as noted below, all sponsors must continue to submit budgets with their applications for participation as specified in § 225.6(c)(2)(ii)(B) and (c)(3)(ii)(B) and to receive start-up or advance payments as specified in § 225.9(a) and (c)(2)(i) of the SFSP Regulations.

Exception: State Agencies may waive this requirement for public schools or private nonprofit schools that:

- Participated in the SFSP during the preceding summer or during vacation breaks in the current year for schools operating on a year-round calendar; and
- Had no operational problems during that time as reported by State Agency or FNS.

Similar policy was established for States participating in the 14-State Lugar pilot. We have retained the budget submission requirement for all sponsors except experienced school sponsors in order to underscore the importance of the budget review process, especially for new sponsors and those that have had operational problems in the prior year. In addition, the budget provides State Agencies with a means for determining start-up payments for new sponsors, as described at § 225.9(a) of the SFSP Regulations.

States that elect to waive the budget requirement for eligible school sponsors may use actual summer Program costs from the preceding year or a reasonable projection based on planned participation to determine the appropriate level of advances.

State Agencies should encourage schools to exercise caution regarding costs allocated to the Program. Unallowable costs previously identified during the budget/budget amendment process will go undetected by the State Agency until a review and/or audit is conducted. Schools should be made aware of the increased liability they may incur as a result of eliminating the budget review process.

Cost Records

Although sponsors do not have to report their costs under the Simplified Summer Food Program, they must continue to maintain records of their costs and make them available for review or audit purposes. It is especially important that sponsors maintain cost records to support their claims for reimbursement.

Nonprofit Food Service

Sponsors must operate a nonprofit food service for children, as required in §225.6(e)(1) of the SFSP Regulations. Benefits to children and the quality of program administration must not be diminished as a result of these simplified program requirements. Sponsors must be able to document that they have maintained a nonprofit food service by retaining copies of all revenues received and expenses paid from the nonprofit food service account. Sponsors must be informed that expenses paid from the nonprofit food service must be allowable costs that are necessary, reasonable, and properly documented.

Sponsors that operate other CN Programs do not need to maintain a separate nonprofit food service for the SFSP; SFSP funds may be included in the sponsor's nonprofit food service account that supports the other programs. However, records and supporting documentation must be maintained to permit the sponsor, reviewers, and auditors to evaluate and verify that the SFSP was operated on a nonprofit basis.

Excess Program Funds

Under the Simplified Summer Food Program, the only limitation on the use of reimbursement that exceeds costs while the Program is in operation is that the funds are spent on allowable SFSP costs, as described in FNS Instruction 796-4, Rev. 4. Although sponsors are not obligated to do so, we recommend that they use any excess Program funds to improve the meal service or other aspects of the food Program.

Sponsors' use of excess Program funds that remain at the end of the year vary depending on whether they operate other CN Programs:

- Sponsors that operate other CN Programs throughout the year must keep the funds in the joint nonprofit food service account and use the excess SFSP funds to pay for allowable costs for the other programs or for the next year's SFSP costs; but
- Sponsors that do not operate other CN Programs during the year are not obligated to return unused funds at the end of SFSP operations. However, organizations that expect to sponsor the next year should keep any excess funds for next year's operations.

Quality Meal Service

States Agencies should work with sponsors at each phase of the Program as noted in the following points to ensure that sponsors do not reduce the meal service quality through poor management of Program resources.

- Review sponsors' budgets

Prior to the start of Program operations, State Agencies must review the budget submitted with the sponsor's application to determine whether the sponsor has planned to provide a quality meal service for the children. If the sponsor is new to the Program, the State Agency could compare its proposed budget to those of experienced sponsors, similar in size, location, and type of organizations.

- Training efforts

During annual sponsor training described in § 225.7(a) of the SFSP Regulations, State Agencies should discuss the importance of careful planning and management of resources in order to provide quality meal service.

- Monitoring operations

The State Agency should monitor the quality of service, using comparisons to the sponsor's efforts in previous years or comparisons to other sponsors operating in a similar environment. If the quality appears to have diminished from previous years' efforts, the State may require sponsors to amend their budgets to ensure that adequate resources are dedicated to providing a quality meal service.

Questions?

To support your efforts to make the Simplified Summer Food Program a success in your State, we are planning to have a conference call in the early months of 2005. Our office will be in contact in January with a date and time for the conference call. We will follow up with an agenda prior to the conference call.

Attached for your information is guidance provided on March 8, 2001 to the original State Agencies participating in the 14-State Lugar pilot project.



DARLENE SANCHEZ

Regional Director

Special Nutrition Programs

Attachment

FEB 28 2001

SUBJECT: Issues Related to the SFSP Pilot Projects Authorized by the Consolidated Appropriations Act, 2001 (Pub. L. 106-554)

TO: Theresa Bowman
Director
Special Nutrition Programs
Midwest Region

At the request of the Indiana State agency, we are providing additional guidance on the operation of the pilot projects by eligible sponsors of the Summer Food Service Program (SFSP) in the 14 qualifying States. Questions and answers provided below address issues concerning accountability, record retention, and State agency review responsibilities.

- 1. Do sponsors have to maintain separate accounts and records of administrative and operating costs?**

No.

- 2. Do sponsors have to report their costs to the State agency at any time?**

Sponsors do not have to report their costs in order to receive reimbursement. Cost records, however, must be available for review by the State agency and FNS reviewers.

- 3. What records must be maintained to document eligible SFSP costs?**

All records of expenditures to determine whether costs are allowable.

- 4. How will year-round operation of other Child Nutrition Programs by a SFSP sponsor affect documentation of SFSP costs?**

Sponsors that operate other Child Nutrition Programs do not need to maintain a separate nonprofit food service for the SFSP. SFSP can be included in the sponsor's nonprofit food service account for other programs. Sponsors that do not operate other year-round Child Nutrition Programs must maintain documentation of a nonprofit food service. Records and supporting documentation must be maintained to permit the sponsor, reviewers, and auditors to evaluate and verify the operation of a nonprofit food service.

5. **If a sponsor's operating costs are lower than the "meals x rates" reimbursement, can the sponsor use the extra operating funds for other USDA Child Nutrition Programs?**

Yes, as long as the funds are only used to support a nonprofit food service. Most importantly, the sponsor must ensure that SFSP benefits to children and the quality of SFSP program administration are not diminished.

6. **If a sponsor's operating costs are less than the "meals x rates" reimbursement, can the sponsor use the extra operating funds to pay for SFSP administrative costs?**

Yes. However, the sponsor must maintain a nonprofit food service and must ensure that SFSP benefits to children are not diminished.

7. **Is the application process for the SFSP changed at all by the sponsor's participation in this pilot project?**

No, the application process remains the same. Sponsors will still submit a program budget that will show anticipated operational and administrative costs. The State agency will review the budgets to ensure the sponsor is capable of properly administering the program.

8. **Will administrative costs be reimbursed at the "meals x rates" level regardless of the amount estimated in the sponsor's budget?**

Yes, qualifying sponsors will receive the full reimbursement rate for both operating and administrative costs, which equals the "meals x rate" amount. We expect that most sponsors will prepare an administrative budget with this in mind.

9. **How should the State agency review administrative expenses for sponsors participating in the pilot project?**

The State agency should review the sponsor's operation of the program to determine the allowability of costs, consistent with FNS Instruction 796-4, Rev. 4. The sponsor's administrative expenditures should be in line with budgeted administrative costs. The State agency should determine whether the pattern of administrative expenditures shows any unusual or unexplained increases over budgeted costs, the sponsor's costs from previous years, or the costs from comparable sponsors. The State agency should ensure that the level of administrative expenditures enables the sponsor to operate a nonprofit food service and maintain a quality food service. If the food service is no longer nonprofit or if

the food service appears to be seriously harmed , the State agency should immediately notify the sponsor to correct the deficiencies. If the deficiencies are not corrected, the State agency should terminate the sponsor from the program, in accordance with 7 CFR 225.11(c) of the SFSP program regulations.

10. What types of sponsors are eligible to participate in the pilot project?

The following types of sponsors in the 14 qualifying States identified in our January 19, 2001, memorandum may participate in this pilot project:

- public or private nonprofit school food authorities;
- local, municipal, or county governments;
- public or private nonprofit sponsors of the National Youth Sports Program; and
- public or private nonprofit residential camps.

Other private nonprofit organizations are not eligible to participate in the pilot project.

11. Are there any limitations on how sponsors use the reimbursement that exceeds their costs?

There are no limitations as long as the funds are spent on allowable costs related to the SFSP, as described in FNS Instruction 796-4, Rev. 4. If excess funds still remain, they should be used to improve current program operations. If the sponsor operates other USDA child nutrition programs, excess SFSP reimbursement must be used for nonprofit food service costs associated with those programs, or maintained for use in the SFSP next year.

12. Do sponsors without year-round Child Nutrition Programs have to return unused SFSP funds at the end of the fiscal year?

No, sponsors are not obligated to return unused funds. Organizations that expect to sponsor the program next year should maintain any excess funds at the end of the summer for next year's SFSP operations.

13. To what extent do sponsors have to keep track of costs vs. rates?

Sponsors are not required to consolidate costs under this pilot project. However, sponsors should be aware of their costs in each category (operating and administrative) and take action to improve the meal service or other aspects of the food program if their operating costs are less than their anticipated reimbursement.

14. How will a sponsor or the State agency determine that the food service is nonprofit?

Maintaining a nonprofit food service requires documentation of all revenues received and expenses paid from the account. Since only allowable costs may be funded from the nonprofit food service account, these costs must be necessary, reasonable, and properly documented. The determination of a nonprofit food service account does not result from simply comparing costs and rates, but requires a determination that all costs charged to the account were allowable and all funds (reimbursement and other monies) accruing to the account were properly identified and recorded as nonprofit food service revenue.

15. How will FNS evaluate this pilot project as required by the statute?

The specifics of the evaluation are still under discussion at this time. However, we are directed by Congress to evaluate the effect of the pilot on participation by children and sponsors, quality of meals served, and program integrity. To accomplish this objective, very likely FNS will need to closely examine data on participation, costs and expenditures, and menus.

16. How can State agencies help ensure that sponsors participating in this pilot project continue to offer quality meal services?

Prior to the start of program operations, State agencies must review the budget submitted with the sponsor's application to determine whether the sponsor intends to provide a similar quality of service compared to the previous year. If the sponsor is new to the program, the State agency could compare its proposed budget to the budgets of other sponsors, similar in size, location, and type of organization. State agencies should pay particular attention to the budgets submitted by non-school sponsors.

The State agency should monitor the operations during the summer. If the quality of service appears to be low or to have diminished from previous years, the State should discuss this problem with the sponsor. If the sponsor is operating a

Theresa Bowman

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program with poor quality service **and** is operating below the reimbursement level, the State should thoroughly investigate the situation. If the sponsor has spent SFSP funds on unallowable costs, the State should assess a claim against the sponsor for the amount of funds spent inappropriately.

The State should use review findings that demonstrate that a sponsor has inappropriately operated the program, provided poor service to children, or misused program funds to declare a sponsor seriously deficient. If the sponsor does not correct the deficiencies, the State should deny any future application in accordance with 7 CFR §225.11(c) SFSP regulations.

Please let us know of any other questions that arise as State agencies begin implementing this pilot project. We will be glad to address additional questions in future correspondence.



STANLEY C. GARNETT

Director

Child Nutrition Division

cc: All other Regions